



## **The Deficit Reduction Act: Fiscal Discipline Must Be a Priority**

*“The driving force behind this effort is the federal deficit and the out-of-control spending that is pushing it increasingly higher. This bill takes fiscally responsible steps to reduce the deficit, reduce spending that is on autopilot, and strengthen our economy. It is the first deficit reduction package in nearly a decade, and probably the most important legislation to be considered this year.”*

*-- Senate Budget Committee Chairman Judd Gregg*

### **AN OVERVIEW:**

- Ø **The Senate and House are taking fiscally responsible steps to reduce the deficit by nearly \$40 billion over five years.**
- Ø **This is a goal agreed upon in the bi-cameral Budget Resolution and the Congress is following through on that plan. It is the first time in eight years the Congress will enact a deficit reduction package.**
- Ø **Curbing spending and reducing the deficit will benefit future generations, instead of saddling them with this generation's obligations.**

### **WHY IS ACTION NECESSARY?**

- Ø **The current deficit situation is unsustainable:**  
End-of-the-year budget results from the U.S. Treasury show that the FY 2005 deficit was \$319 billion. While that is down from previous expectations due to a strong increase in individual and corporate tax receipts, it is still too high. The deficit for the first two months of FY 2006 is \$130 billion, which is about 13 percent higher than for the same time a year ago. We are on an unsustainable path that will jeopardize the economic stability of future generations.
- Ø **Spending is the problem:**  
We are spending a lot more than we are taking in, despite the fact that our tax receipts are growing stronger. For example, while revenue growth continues to be robust in FY 2006, spending growth has exploded -- up \$31 billion or 8 percent so far in 2006 -- erasing the benefits of revenue growth. If spending is allowed to continue, that will put a serious strain on our economy down the road. Mandatory spending is the biggest problem; these programs simply grow year after year on automatic pilot with no regular review by Congress. Automatic spending, excluding interest on the debt, now represents 56 percent of all federal spending. Left unchecked, that will grow to more than 62 percent in 10 years. Accelerating spending in the largest entitlement programs is on the verge of overwhelming our economy's ability to pay for those benefits as the Baby Boom generation begins

to retire in 2008. We must find a way to slow the rate of growth of automatic spending to a level that is sustainable, given that the ratio of retirees to workers will be higher than ever before as the Baby Boom retires.

Ø **The Deficit Reduction Act is a step in the right direction:**

Under the 2006 Budget Resolution, the federal government is estimated to spend \$13.8 trillion over the next five years. The Congress is working to craft a final Deficit Reduction Act that would reduce the growth of spending by nearly \$40 billion over that time period, which is less than 0.3 percent of total federal spending. Many would argue that is not enough, considering that the last three enacted reconciliation bills in the 1990s included 2-3 times the amount of savings: in constant 2005 dollars, the 1990 bill reduced the growth of mandatory spending by \$100 billion, the 1993 bill reduced growth by \$96 billion, and the 1997 bill reduced growth by \$118 billion, all over a five-year period. More needs to be done to reduce the deficit and control spending, but the Deficit Reduction Act is a step in the right direction.

Ø **Fiscal discipline needed to keep the U.S. economy strong and growing:**

Despite some serious economic set-backs such as Sept. 11<sup>th</sup>, a recession, and a significant correction in the stock market, the U.S. economy has managed to stay resilient as the President and Congress have worked to enact sound economic policies and lessen the tax burden on families and businesses. That has created 4.4 million jobs since May 2003 and generated a 14.6 percent increase in tax receipts this past fiscal year. Long-term interest rates are relatively low and homeownership is at an all-time high. However, economic growth will not be able to sustain the current rate of spending. Fiscal discipline is necessary to keep the economy growing.

Ø **Future generations depend on Congress taking action now:**

We all want today's economic benefits to continue for future generations. But to make that happen, we need to control spending and reduce the deficit, while allowing Americans to keep and invest more of what they earn so that the economy can continue to expand and grow.

## **WHAT'S IN THE DEFICIT REDUCTION ACT?**

### **The Deficit Reduction Act reduces the deficit by nearly \$40 billion over five years:**

- Ø Agriculture Provisions: \$2.709 billion is saved over five years
- Ø Housing and Deposit Insurance Provisions: \$520 million is saved over five year
- Ø Digital TV Transition and Public Safety Provisions: \$7.383 billion is saved over five years
- Ø Transportation Provisions: \$156 million is saved over five years
- Ø Medicare Provisions: \$6.412 billion is saved over five years
- Ø Medicaid Provisions: \$4.759 billion is saved over five years

- Ø Human Resources Provisions & Continued Dumping and Subsidy Offset: \$1.592 billion is saved over five years
- Ø Education & Pension Benefit Provisions: \$16.286 billion is saved over five years
- Ø LIHEAP Provisions: In a one-time expenditure, provides \$1 billion to assist low-income consumers with higher home heating costs following production disruptions caused by Gulf Coast hurricanes
- Ø Judiciary Provisions: \$553 million is saved over five years

**The Deficit Reduction Act contains good government reforms that:**

- Ø **Improve the Medicare and Medicaid programs for elderly and low-income patients** – In addition to achieving significant budget savings while reducing wasteful spending, reforms will result in expanded flexibility of state Medicaid benefit packages, expanded home and community-based Medicaid services, additional Medicaid benefits to Hurricane Katrina victims, and expanded assistance for disabled children.
- Ø **Strengthen education for low-income students** – The bill reduces bank and education lender subsidies and special payments, using the funds to reduce the deficit. It then puts some of the savings into new grant aid for low-income students, especially those who study math, science and technology; reducing student loan taxes and fees; and extending loan forgiveness to teachers of special education, math and science and to active duty military personnel.
- Ø **Promote assistance for needy families** – The bill provides grants to needy families with children, and provides increased funding for child care and for foster care and adoption assistance programs.
- Ø **Offer relief to low-income families struggling with high home heating costs** – The bill provides a one-time only supplement to the Low-Income Home Energy Assistance Program (LIHEAP) next year to assist low-income households struggling with high home heating costs they will face as a result of production disruptions caused by the Gulf Coast hurricanes this year.

**THE BOTTOM LINE:**

- Ø **The current federal deficit is too high, and out-of-control mandatory spending is threatening the economic security of future generations.**
- Ø **The Deficit Reduction Act, while reducing spending and the deficit, also benefits low-income students, patients and families.**
- Ø **Congressional Republicans have worked hard to achieve fiscally responsible savings and reduce the deficit – passing the 2006 Budget Resolution that puts the government on track to halve the deficit by 2009 and approving the Deficit Reduction Act.**
- Ø **To keep the U.S. economy strong and growing, the time to act on deficit reduction and curbing out-of-control mandatory spending is now.**